FINDEL PLC

Preliminary Results

For the year ended 2 April 2010

20 July 2010

Introduction

Agenda

- David Sugden – introduction
- Chris Hinton – financial results
- Phil Maudsley – operational review
- David Sugden – recovery strategy, outlook and Q&A

David Sugden

Chairman

Introduction

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Solid performance from continuing operations, with the exception of Education business

- Group sales declined 4% to £547.0m
- Group Benchmark operating profit £36.2m
- Significant exceptional charges
- Statutory loss before tax of £76.1m
- Benchmark EPS of 2.60p
- Basic loss per share: 20.02p
- Net debt at 2nd April 2010 £309.6m
- Clean bill of health from KPMG's forensic review (issues isolated to Education Supplies division)
- Board not recommending payment of a dividend
- Post balance sheet, amended credit facilities

Introduction

Context

- Appointed to the Board in August 2009
- Chairman since April 2010
- Stabilised financing
- Initiated Full Potential Review

Introduction

What I found

- Irregularities in Education business isolated
- Poor governance and controls
- Culture of over promise under deliver - top down pressure
- Lack of management bench strength for leadership and implementation
- Core business under-invested due to levels of debt
- Relations with suppliers strained
- Relations with banks strained

Impact of issues

- Urgent need to stabilise finances
  - New banking signed on 16th July
- Profitability and cash generation significantly lower than previously understood due to irregularities in Education business
- Debt levels too high
  - Deleveraging exercise has not delivered an appropriate capital structure

Opportunities

- KPMG review has confirmed irregularities were isolated to Education business
- Major changes in leadership and Board structure
- Market leading businesses
- Full Potential Review underway
- Significant opportunities to improve business in the medium term
  - No silver bullet – back to basics

Chris Hinton

Finance Director

Group Results

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Trading Summary

	2010	2009
Sales	547.0	572.1
Operating Profit	36.2	48.4
Finance Costs (net)	(22.4)	(19.2)
Profit before tax	13.8	29.2
EPS	2.60p	17.36p
DPS	nil	2.20p

Home Shopping

Divisional Performance

	2010	2009	*Change*
Sales	345.1	345.0	*0.0%*
Gross Profit	199.1	217.7	*-8.5%*
	57.7%	*63.1%*	
Operating Profit	30.5	34.4	*-11.3%*
	8.8%	*10.0%*	

Home Shopping – Credit Business

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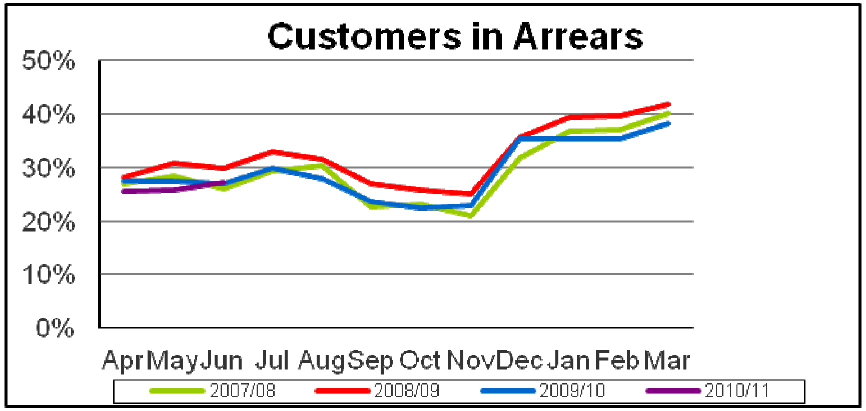
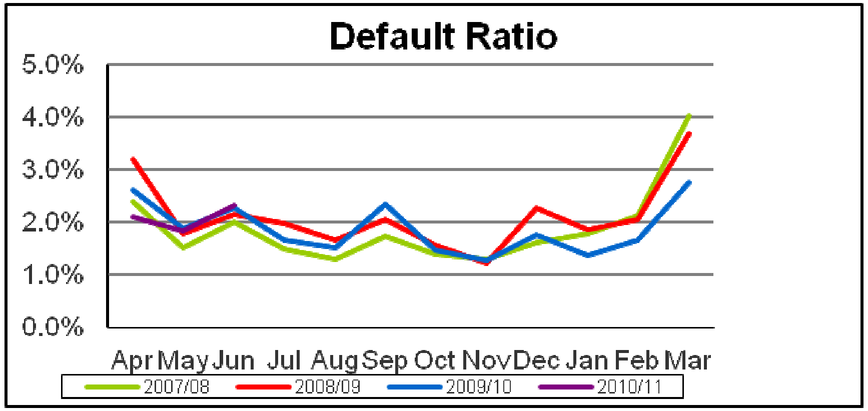
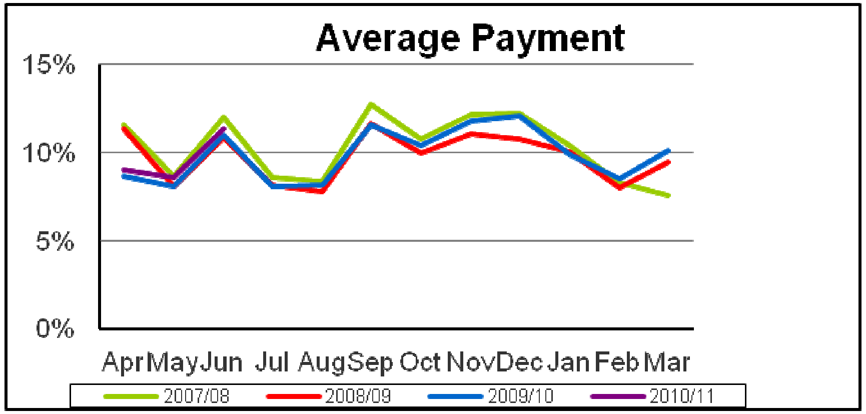
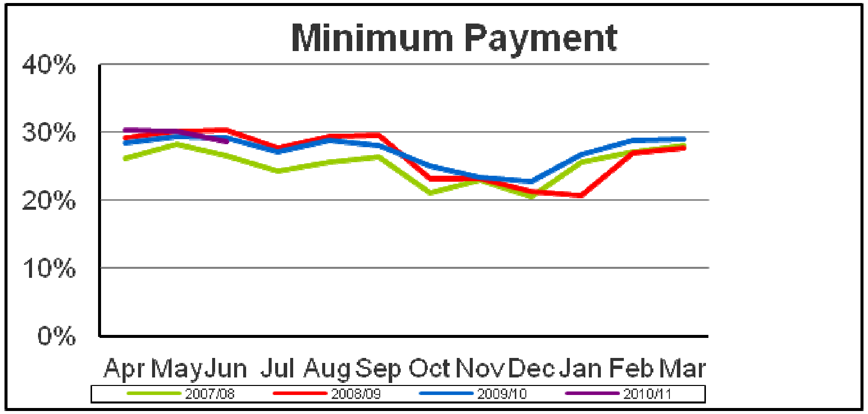
Credit book performance remains good









Education Supplies

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Divisional Performance

	2010	2009	*Change*
Sales	138.4	162.3	*-14.7%*
Gross Profit	48.7	60.0	*-18.8%*
	35.2%	*37.0%*	
Operating Profit	3.5	8.8	*-60.2%*
	2.5%	*5.4%*	

Healthcare

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Company Performance

	2010	2009	*Change*
Sales	63.5	64.8	*-2.0%*
Gross Profit	14.5	16.3	*-11.0%*
	22.8%	*25.2%*	
Operating Profit	2.6	4.9	*-46.9%*
	4.1%	*7.6%*	

Group Results

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Other Items

£m	2010	2009
Debt refinancing costs	12.2	-
Restructuring costs	16.7	45.1
Pension curtailment gain	(5.4)	-
Discontinued activities	65.1	36.4
Amortisation of intangibles, Share based payment expense, and Movement on financial derivatives	1.3	5.1
	89.9	86.6

Group Results

Balance Sheet

£m	2010	2009
Non Current Assets		
Tangible/Intangible	162.4	185.0
Investments, loans & receivables	-	34.3
	162.4	219.3
Current Assets		
Inventories	73.6	74.0
Trade & Other Receivables	210.4	231.6
	284.0	305.6
Net bank debt (including finance leases)	(215.4)	(284.5)
Securitisation programme	(94.2)	(91.6)
Pension creditor	(0.5)	(8.2)
Other Creditors	(102.7)	(108.3)
	(412.8)	(492.6)
Net Assets	**33.6**	**32.3**

Amended credit facilities

- 18 month facilities
- Tight covenants / liquidity
- Margin 500 bps, increase to 650 bps in 2011
- Intention to review / address debt situation as part of the Full Potential Review

Cash Flow

£m	2010	2009
Benchmark operating profit	**36.2**	**48.4**
Net surplus/ (deficit) of Depreciation/Amortisation over Capital Expenditure	2.6	(0.8)
Working Capital	(0.2)	37.0
Interest Paid	(18.0)	(22.8)
Taxation	8.9	(2.8)
Pension contributions in excess of income statement charge	(3.2)	(3.5)
Share of benchmark result of associate	0.4	(0.4)
Free cash flow	26.7	55.1
Cash costs of terminated operations, other items, and acquisitions, disposals and loans to associate	(20.2)	(26.9)
Net cash flow before financing activities	6.5	28.2
Share Issue Proceeds Gross	80.9	-
Net cash flow from other financing activities	(9.4)	(33.7)
Refinancing and Share Issue fees and costs	(18.6)	-
Net increase/(decrease) in cash and cash equivalents	**59.4**	**(5.5)**

Phil Maudsley

Chief Executive

Full Potential Review

Operational opportunities

- Significant potential for business improvement over medium term
- Home Shopping – need to rectify past under investment
- Education Supplies – fundamental turnaround
- Kleeneze invest for growth
- Accelerate Kitbag

Home Shopping: core credit business

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Strong performance from reduced base

- Disposal of loss making businesses
- Product sales up 2% despite closing customer base of 1.15m vs 1.23m last year
- Minimum credit score for acceptance increasing by two bands: impact on number of potential new customers but benefit to margins expected from reduction of bad debt rates
- Average sales per customer up 7%
- Net new customers similar to last year and retention rate over 70%

Home Shopping: core credit business

Clothing and cost reduction

- Clothing
  - Clothing up 55%, now 16% of sales
  - Continued growth in the new financial year
  - Clothing customers buying twice as often
  - Clothing driving year round recruitment
- Cost reductions
  - Stock reduced by 11%
  - £18m of stock reductions over two years
  - Total annualised cost savings of £5.4m
    - Warehouse closures £2.4m
    - Payroll reductions £3m

Home Shopping: core credit business

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Range of opportunities – but investment required

Unfulfilled demand

- At least £20m unmet demand in 2009
  - Out of stock
  - Pre-dispatch credit
- Higher if internet abandoned baskets included
- Almost 50% in Nov-Dec

↓

- If 25% addressable, then up to £3m profit uplift

Credit management

- “Only home shopping business not using behavioural scoring”
- Opportunity for
  - More sales
  - Less bad debt
  - Lower costs

  through more effective credit limit/ authorisation/collection strategies

↓

- £3m p.a. profit uplift for £1-2m investment?

Systems & processes

- Proposal under development for shift to:
  - Real time product/ customer information
  - Accurate delivery times
  - Real time credit checks
- Modular delivery over 3 years

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- ~£7-8m investment for ~£4-5m p.a. annual benefits?

Home Shopping: Kleeneze

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Solid performance – distributor opportunities

- AOV up 4%. Christmas catalogue launched three weeks early
- Stockholding reduced 8% due to improved buying
- Operating profit up 5%
  - Reduced bad debts
  - 25% reduction in returns
- Launch of Eezereach system
- Growth through increasing distributor numbers
- Current distributor numbers 30% below optimum

Home Shopping: Kitbag

Strong performance, successful new operational model rolled out

- Sales up by 34% to £48m
- New Everton contract performing well
- Comprehensive new model:
  - Design & procurement of merchandise
  - Operation of retail outlets
  - Appointment of licensors
- Nottingham Forest and Manchester City on new model
- Kitbag brand 20% of revenue, sales up 23%

Healthcare

Good performance from existing contracts, underlying sales base increasing

- Growth in continuing ICES contracts, Mobility Care and Primary Care
- Sales overall 2% lower due to loss of one large contract in FY09
- 3 contracts retained on retender, 4 contracts extended
- Net gain of two new contracts increases underlying sales base by £1.7m
- Pipeline of new contracts opportunities stabilised
- Further growth opportunity in Primary Care
- Increase in number of new contracts coming to the market

Education Division

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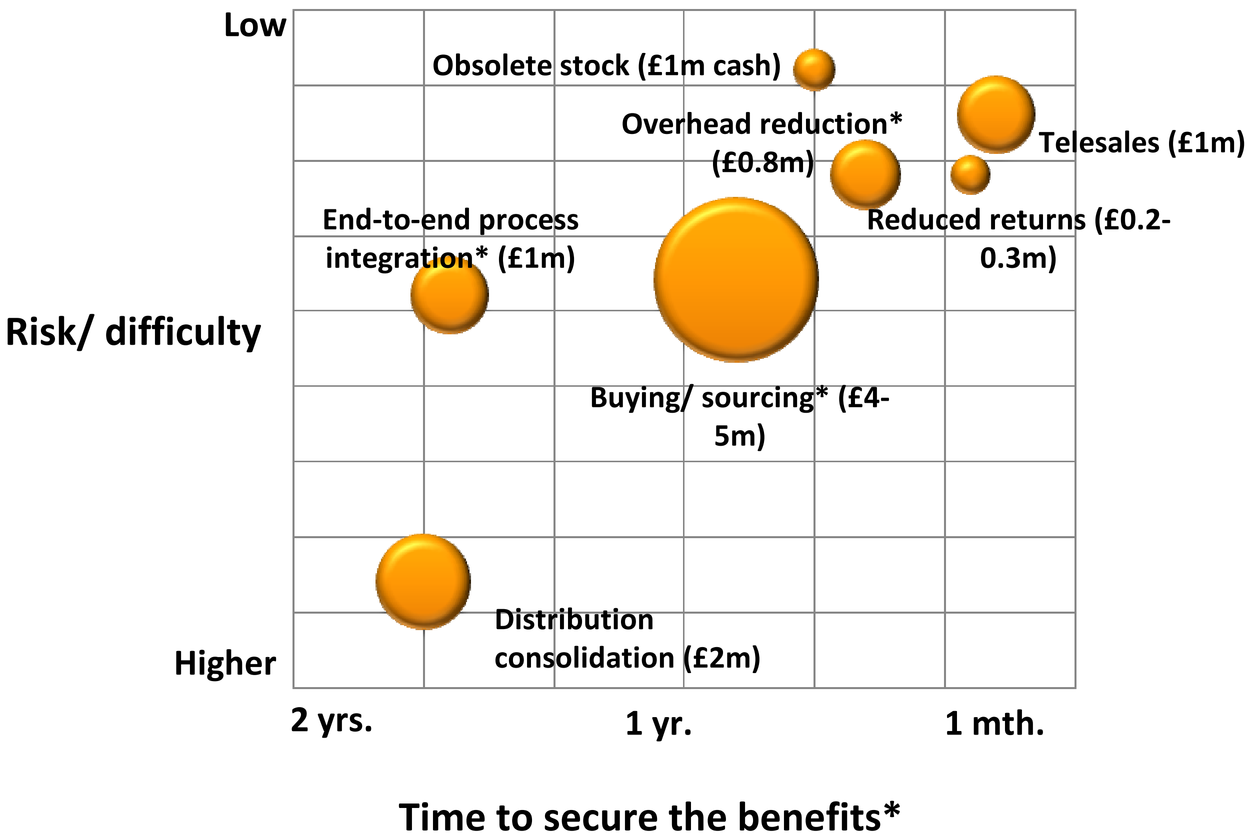
Difficult year, but improvement opportunities identified

- Sales down 20% at half year
- Improvement in H2 constrained by budgetary tightening
- Full year catalogue sales down 11%
- £7m year-on-year reduction in major contracts
- However, £6m of annualised cost savings identified, £2.8m delivered
  - Efficiencies – warehousing and administration
  - Payroll reduced by 28%
- New team identified significant cost saving opportunities as part of Full Potential Review
- Declining market share

Summary of opportunities to-date



- Ongoing work on timing of benefits to bottom-line, and work on quick wins
- Opportunities above need to be cross referenced against already budgeted items

Key themes for Education

- Simplification
  - Focus/skills/time
  - Costs
- Scale
  - Purchasing (SKUs)
  - Distribution
- Systematisation
  - End-end
  - Automation
- Culture
  - Customer-driven
  - Communication
  - Right-first-time
  - Lowest cost to operate
  - Accountability

Excellent management and implementation skills required

Education Division

Substantial changes to leadership team

- Sales Director (Xerox, Premier Farnell)
- Buying & Merchandising Director (Shop Direct/Littlewoods, Umbro, Nimans)
- Finance Director (AMEX, New Balance)
- Combined experience at Director level in
  - Mail order retail
  - Broad Range High Service Distribution
  - Large Corporate

Education Division

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Product and price to improve customer service

- Commodity offer extended nationwide
  - Stationery, cleaning & maintenance
- 300 new product lines in 2010
- 4 Education Resources Awards
- 2011 catalogues to include range extensions and new products
- Research led investment of over £1m
- Simplified pricing structure

David Sugden

Chairman

Going forward

Stable foundations

- Drawn a line under the past
  - Accounting issues are fully identified and isolated
- KPMG review
  - Full review
  - Proven problems isolated to Education
- Ensure accounting problems cannot reoccur
  - Greater emphasis on governance and controls
  - Audit committee / internal audit function
  - Strengthening of finance function
- New bank facilities

Summary

Update on progress

- Full Operational Review
  - Well received by the organisation
  - Early findings positive
- Exiting non-core and underperforming businesses
  - WEBB sold on 8th June 2010
  - Confetti and IWOOT to be sold
- Appointed Greenhill to review options for rightsizing the balance sheet

Outlook and conclusion

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Despite difficulties, underlying business strong

- Strengthened Board
- New team has drawn a clear line in the sand and is shifting culture
- Group contains a number of good profitable and cash generative businesses
- Focus on identifying / implementing performance improvement actions
- We will report again following completion of review